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Agricultural Situation

EU Commissioner Mariann Fischer Boel's speech on 'Food, feed or fuel'

2008

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Report Highlights:

Mariann Fischer Boel, the EU Commissioner for Agriculture and Rural Development, gave an important speech to the Bundesvereinigung der Deutschen Ernährungsindustrie (German Food Industry Association) on January 18, 2008 at the beginning of Grüne Woche (Green Week), the large annual food fair in Berlin, Germany. Her topic was 'Food, feed or fuel: a measured policy on agricultural markets'. In her remarks, Commissioner Fischer Boel called for tough policy choices: on changes in food prices - ("...**we must allow our markets to function.**"); renewable energy from agriculture - ("...this [EU] target is modest... It's also **necessary** if we're serious about energy security and climate change. And it's **attainable.**"); and GM products - ("But where science has given a product a clean bill of health,...we [should] follow the authorization procedure. If [not],...we load burdens onto the European feed and food sectors. Therefore, the European Union urgently needs to get its approvals system moving more quickly and more smoothly"). The speech is noteworthy for introducing a direct and bold approach to the EU debate.

Her complete remarks, as published on her website, are detailed in this report.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report

Mariann Fischer Boel

Member of the European Commission responsible for Agriculture and Rural Development

Food, feed or fuel: a measured policy on agricultural markets

Meeting with BE (Bundesvereinigung der Deutschen Ernährungsindustrie)
Berlin, 18 January 2008

[Ladies and gentlemen],

It's a pleasure to join you here today.

The theme of today's conference – the availability of agricultural raw materials – is certainly an interesting theme, and has of course been very much in the news.

In a market economy, the theme essentially boils down to prices. I'm a farmer by background, and as you know, prices are a farmer's favorite subject of conversation – apart from the weather!

For decades, a persistent challenge for agricultural policy in many developed countries was that of low farmgate prices – prices which were either declining, or at least declining relative to prices of other goods. The impact of these trends on farmers' incomes was a constant millstone around the necks of policy-makers.

Suddenly, the situation has apparently been transformed – almost overnight. I wonder how many of you foresaw this 12 months ago. The price rises of 2007 were eye-catching. Within the European Union we saw year-on-year increases of 80 per cent for wheat, 50 per cent for maize, 50 per cent for butter, and 80 per cent for skimmed-milk powder.

Developments like these have worried processors, they have worried the media, and they have worried thousands of people and organizations that have filled my e-mail inbox with related messages. Also for farmers some price increases are a double-edged sword. Higher cereal prices have meant better incomes for crop farms, but have caused serious problems for many livestock producers. Pig meat producers are having serious economic problems.

But, when market conditions appear to change rapidly, we have to take care to get an accurate picture of what is really happening, and we have to think carefully about possible policy responses – not give in to knee-jerk reactions.

So what lay behind last year's market developments?

As you know, there have been undeniable structural drivers. Economic growth, urbanization and changes in diet – especially in India and China – are pushing up global demand.

Then there have been the short-term factors. It's hardly surprising that when harvests or harvest forecasts were poor in the European Union **and** Australia **and** Argentina, the markets

reacted. And of course, when large countries such as Russia and Ukraine put export bans or taxes in place, this was guaranteed to make the markets nervous.

As another factor, I can't avoid mentioning the contribution of the biofuels sector. But let me be clear: I'm talking here about the biofuels sector as it operates globally, not only within the European Union. The European biofuels industry currently absorbs less than 2 per cent of our cereals production. We really can't blame it (or thank it) for the price rises that we have seen!

I'll come back to the issue of biofuels a little later.

Whatever the causes behind the current conditions on agricultural markets, what has it all meant for food prices?

Last summer, large sections of the European media got hold of the idea that price rises in the supermarkets were all about agricultural prices. This idea was attractively simple, but it didn't do full justice to reality.

Certainly, the producer price of cereals (for example) has a large influence on the consumer price of meat. On the other hand, its influence on the cost of bread is very small. It makes up around 4 per cent of the consumer price of a loaf. This was not always understood last summer.

When we look beyond the shores of Europe the impact of higher prices for developing countries is important. Although high prices have caused problems in some cases, in many poorer countries they could be a useful stimulus to farming. And this stimulus will be especially valuable if the countries concerned get the right technical help – the sort of help which the European Union continues to provide through its development policy.

What about domestic policy? How are we responding to price changes, and how will we respond in the future?

So far, we have taken a number of pragmatic steps.

First, we have suspended import duties on all cereals except oats.

Secondly, we have reintroduced export refunds on pigmeat – for a limited period, to act as a safety net.

Thirdly, we have suspended arable set-aside for this year. Some media have claimed that this has had very little impact on farmers' sowing decisions. In fact, we really don't have enough data from Member States to reach conclusions on that for the time being. But we have very clear indications showing a very different picture from that presented in the media. The estimates we have now suggest that the increase in production will be just below 10 per cent which obviously gives a completely different picture. It is very nice to see that the market is reacting. The market really works thanks no doubt to the decoupled payments introduced in the 2003 reform.

What policy steps are needed for the future?

In a sense, one of the most important responses is to avoid "doing" too much!

What I mean is this: within reason, **we must allow our markets to function**.

One of the aims of the Common Agricultural Policy as it now stands is to allow our farmers to base their production decisions on what the market is telling them.

This is certainly not the **only** goal of the CAP. If you read through any of the Commission's literature on the subject, you'll find plenty about modernizing the farm sector, about caring for the countryside and for farm animals, about vibrant rural communities, and many other things.

Nevertheless, it is agreed policy in the European Union not to cut farmers off from market signals. So within reason, when prices rise, we must give farmers – and the food industry – the chance to respond.

But there are certainly things that we can “do” to make this process smoother and more efficient. If a given element of our policy is actually hindering farmers from responding to clear demand, we should clear that obstacle out of the way.

This is true, for example, with regard to the **milk quota system**. It's obvious that the world wants more dairy products. And as I said at a recent dairy sector conference in Brussels, it would be ludicrous to let non-European producers make a clean sweep of these emerging market opportunities. This is one reason why a large number of Member States have said that we must allow the quota system to expire in 2015, as agreed in 2003. Within the “Health Check” of the Common Agricultural Policy which is now underway, we are looking at ways of preparing for the end of the quota system, to give the sector a “soft landing”.

In the meantime, in response to a request from a large number of Member States, I have proposed a one-off increase of 2 per cent to milk quotas to apply from April this year. This should help to give our dairy farmers and producers a bigger slice of the extra business which is now on offer around the world. I am surprised about the position of the German government in the discussions on the 2 per cent increase. It would be a pity if some Member States blocked the increase in quota. We could decide on further quota increases up to 2015 within the Health Check.

A broader issue that we're looking at within the Health Check is what we should do with our agricultural market instruments in general.

Whichever market tools we choose to keep, it's very important that they don't simply reduce the agility of our agriculture in responding to market signals. They must serve valid purposes that fit in with our goal of market-orientated farming.

For example, I think intervention ought to act as a genuine safety net that we can use without relying on subsidised sales. It should not be a tool to set market prices. We have been moving in that direction in various sectors; perhaps we need to move further.

On the other hand, I'm being pragmatic about what we do with our market tools. The Commission is watching the price situation closely, and if it really did seem to be getting completely out of hand, of course I wouldn't sit back and do nothing.

Another topic under discussion in the Health Check is that of **renewable energy**, and especially **biofuels**. Of course, these are issues which reach well beyond agricultural policy.

One thing I can tell you clearly: don't expect a U-turn on overall biofuels policy any time soon!

There has been criticism of the European Union's target that biofuels should account for 10 per cent of its total transport fuel usage by 2020.

But let's note that this target is modest compared to what is already happening in Brazil and the US. It's also **necessary** if we're serious about energy security and climate change. And it's **attainable**.

Essentially, we estimate that by 2020, meeting our target would mean using around 15 per cent of our arable land for biofuel crops. Obviously there is competition between food, feed and fuel. But we the estimates we have for an increase in the harvest of around 10 per cent in 2008 I think you can look at the these figures in a different context.

The debate surrounding this figure is complicated. But let me make just one key point:

Imports and second-generation fuels would shoulder much of the burden of meeting the 10 per cent target. In our study, we assume that we would import 20 per cent of our biofuel needs in 2020. And certainly, imports will be available if we need them. This was clearly confirmed when I visited Brazil and Argentina last November.

Furthermore, we should encourage everybody to put as much effort as possible into research and development into the second generation of biofuels. And it seems that the technological development of second-generation fuels is accelerating.

Finally, within the CAP Health Check, it seems very likely that we'll end the specific aid of € 45 per hectare for energy crops, and focus more on developing the technology needed to bring down the cost of second-generation fuels.

I'll now come back to one final area of policy in which we may face difficulties for the food and feed the industry: **GM products**. It's clear that it can cause headaches if a GM feed product needs just 15 months to be approved in the US (for example), but several years in the European Union.

I'm certainly not arguing that we should authorize imports of GM products which science has told us to reject.

But where science has given a product a clean bill of health, that fact must be paramount as we follow the authorization procedure.

If we show a lack of faith in procedures which we ourselves reformed only a few years ago after a long debate, we undermine our credibility and we load burdens onto the European feed and food sectors.

Therefore, the European Union urgently needs to get its approvals system moving more quickly and more smoothly. I realize it is politically an extremely sensitive issue.

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To conclude, I would say this. With sensible policies in place, I see no reason why the European food industry should not continue to have access to sufficient agricultural raw

materials – at prices which should be reasonable, though somewhat higher than in past years.

But we have to be vigilant. We have to make sure that farmers are truly in a position to respond to higher prices by raising production. We certainly have to avoid creating unnecessary blockages in the market.

While price increases poured down on us last year, I was doing my best to see through the rain – to see what we needed for the future. We still need a Common Agricultural Policy that encourages both responsiveness to the market and – partly through this responsiveness – a certain stability.

I will do my part in 2008 so that we can build on the successes that we have already scored in this respect!

Thank you for listening.

